MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
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Oh what a tangled web we weave

'Oh what a tangled web we weave' is an opening line of Marmion: A Tale of Flodden Field by nineteenth century Scottish author, Sir Walter Scott.

This phrase aptly describes the twist and turns of the FGV Holdings Berhad's saga.

Now, in an about-turn of events, the Federal Land Development Authority's (FELDA) is planning to make a mandatory takeover offer to FGV's minority shareholders at RM1.30 per share.

FELDA is buying over a 6.1% stake held by Kumpulan Wang Persaraan (Diperbadankan) (KWAP) and a 7.78% interest held by Urusharta Jamaah Sdn Bhd (Proposed Acquisition). This raises FELDA's stake to 35.12%.

Upon completion of the proposed share acquisition, FELDA, together with the parties acting in concert (PACs), will collectively hold more than 50% of FGV shares, thus triggering a mandatory takeover offer (MO).

Earlier, we read that FELDA had obtained the Cabinet's approval to terminate its land lease agreement (LLA) with FGV. There was also talk that FELDA wanted to take over FGV's oil palm mills.

We had also written about the uncertainty about the quantum of compensation that FGV would receive pursuant to the LLA termination. This was an important consideration for minority shareholders to enable them to make an informed investment decision.

Things to consider

Now, with the proposed mandatory offer of RM1.30 per share, there are some issues for minority shareholders to consider.

Firstly, is the offer reasonable and fair? The offer price of RM1.30 is well above the net asset per share of RM1.13 as of 30 September 2020. Meanwhile, the latest quarterly earnings per share (EPS) is 3.8 sen and the cumulative 9 months EPS is 0.4 sen.

This must be juxtaposed with two important factors affecting the oil palm industry: higher CPO prices and the acute shortage of foreign oil palm workers. We will have to wait for the independent advisor and the Board to give their opinion on the reasonableness and fairness of the offer.

Secondly, critical information such as the listing status of FGV has not been disclosed to the public. Minority shareholders tend to accept the offer if the listing status is not maintained as they do not wish to invest in an unlisted company where price discovery mechanism and a ready market is not available.

Surely, FELDA would be in-the-know as to the eventual listing status of FGV. It is puzzling why such important information was not made known to the public by FELDA.

Thirdly, in the event the MO does not materialise, will FELDA's earlier intention of terminating the LLA with FGV still stand? If it does, the compensation for LLA termination will be a relevant consideration for minority shareholders.

Lastly, the funding for the Proposed Acquisition has yet to be obtained and finalized. This is a condition precedent to be fulfilled by FELDA for the Proposed Acquisition before undertaking the Proposed MO.

For long-term investors, investing in FGV had been a misadventure. Recall that FGV was listed at RM4.55 in 2012 and was touted as the third largest IPO listing in the world that year. In Dec 2018, FGV dropped to an all-time low of 64 sen. FGV has been plagued with a slew of legacy issues.

Many minority shareholders are still nursing their wounds, having invested at the IPO price, or at prices higher than the offer price of RM1.30. The stock market does not promise a profit; minority shareholders will have to monitor events as they unravel and make timely and informed decisions.

ESG: A matter of short-term pain, long-term gain

As more institutional investors/stakeholders embrace "responsible investing", the acronym ESG (environmental, social and governance) has gained prominence of late to the extent that public listed companies (PLCs) which fail to adopt sustainable business practices risk finding themselves erased from the radar of ESG-abidance investors.

A good case in point is that UK pension giant Brunel Pension Partnership which oversees £30 billion of pension funds has pledged to sack fund managers who refuse to prioritise ESG-friendly investments.

In fact, ESG investing is increasingly popular, judging from the rapidly rising number of signatories of the Principles for Responsible Investment (PRI). The number of signatories increased from 100 (representing US$6.5 trillion of assets under management) in April 2006 to 3,300 signatories (representing US$103.4 trillion of AUM) as of March 2020.

PRI is a United Nation-support initiative to promote the incorporation of ESG issues into investment practices across different asset classes.

Most local PLCs not well-prepared

Sadly, many local PLCs are ignorant – or conveniently ignoring – this global trend.

According to the inaugural EY Climate Risk Disclosure Barometer (CRDB) 2020 Malaysia, Malaysia's top 100 PLCs lack comprehensive climate risk disclosures.

The findings were based on the analyses of reporting disclosures by the PLCs, benchmarked against the global Taskforce on Climate-related Financial Disclosures (TCFD) recommendations in four areas, namely, governance, strategy, risk management, and metrics & targets.

The study found that the top 100 PLCs scored only 34% for overall coverage of climate change-related risks, and 12% for the overall quality of disclosures when benchmarked against the global Taskforce on Climate-related Financial Disclosures (TCFD) recommendations.

The scores were higher for coverage of metrics & targets (45%) and risk management (41%). The coverage of governance and strategy was lower at 22% and 24% respectively.

As communities and economies struggle to cope with the COVID-19 pandemic, as well as the climate change trends increasingly apparent across regions, a "wait-and-see" approach could heighten the risk of not developing comprehensive and robust strategies to strengthen business resilience, said Arina Kok, Ernst & Young Advisory Services Sdn Bhd director for Climate Change and Sustainability Services.

Inaction can be costly

With the rampant occurrence of climate change disasters and rising global temperature, Kok believes inaction is no longer an option for businesses.

"Companies need to consider the broader value chain resilience and build preparedness in facing systemic shocks from external factors such as the pandemic and climate change," she said.

Thus, mapping out the potential future climate scenarios and their implications is critical. After all, developing climate risks reporting can further steer strategic thinking towards the design of a "green" roadmap to build enterprise resilience.

"There is significant scope for Malaysia's PLCs to leverage climate risk assessment to build organisational resilience and help create long-term value in today's challenging times," she added.

Proactive communication with stakeholders on ESG disclosures

Interestingly, PwC's *SDG Reporting Challenge 2020* found that although 73% of Malaysian companies mentioned Sustainable Development Goals (SDGs) in their reporting, only 20% had included the SDGs in their published business strategy.

As the SDGs outline the areas of impact for ESG considerations, it suggests that ESG has yet to become a core focus for companies.

More broadly, PLCs need to ensure that material ESG risks, opportunities, and strategic decisions are consistently and transparently disclosed to all stakeholders through their reporting exercises.

And beyond reporting, companies need to create a dialogue with their stakeholders on their impacts and plans, so that informal channels reinforce their formal disclosures.

Instead of accessing information made available by the companies themselves, studies have shown that investors turn to public information and third-party research when they intend to assess the ESG practices of companies. However, much of this third-party information may be unverified.

"Corporates are missing an opportunity to craft their own sustainability narrative if they are not proactive in communicating how they are doing business responsibly as a competitive advantage," advised PwC Malaysia's sustainability & climate change leader Andrew Chan.

ESG premium for ESG-compliant stocks

In addition, AmInvestment Bank's equity research head Joshua Ng opined that despite potentially reduced returns (lower earnings and cash flow) for a company that observes high ESG standards, its market valuations may not fall, and may rise instead.

"As more investors embrace ESG investing, they raise the weighting of ESG-compliant stocks in their portfolios," he said in a recent report titled *Malaysia: ESG: A new Mega Trend in Investing*.

"This bumps up the demand for ESG-compliant stocks which pushes up their prices based on the simple law of supply and demand. The market effectively prices in an 'ESG premium' as reflected in its willingness to accept a higher P/E multiple or a lower discount rate in valuing ESG-compliant companies."

Using the S&P 500 ESG Index as a gauge, it can be observed that the index has outperformed its benchmark S&P 500 consistently. In fact, the outperformance has been more prominent on a one-year and three-year basis versus five-year and ten-year, which could be a testimony for the increasing recognition of the "ESG premium" by investors.

Closer to home, however, the FTSE4Good Bursa Malaysia – the best ESG barometer for the local bourse – has underperformed its benchmark index the FBM EMAS (which comprises the constituents of the FTSE Bursa Malaysia Top 100 Index and FTSE Bursa Malaysia Small Cap Index) persistently on all one-year, three-year and five-year basis.

Nevertheless, this could be due to the under-representation of glove stocks in the FTSE4Good Bursa Malaysia index – with only Top Glove Corporation Bhd and Hartalega Holdings Bhd in the index – at a time when the Malaysian market has been driven predominantly by glove stocks.

Having said that, the FTSE4Good Bursa Malaysia index is poised to outperform its benchmark index over a longer time horizon, as more investors embrace ESG investing, and as the index further expands its list of constituents, enabling it to better represent and capture ESG-compliant stocks.

Moving forward, minority shareholders must be aware that the ESG investing or sustainable investing is becoming a new norm in the investing fraternity.

Whatever their views on climate change, a wide swathe of related regulatory changes, penalties and taxes is set to come into effect worldwide and companies must take these measures into account seriously.

From now on, MSWG as a movement that advocate shareholder activism will play a more proactive role to raise environment-cum-governance issues at the AGMs of relevant PLCs.

Devanesan Evanson
Chief Executive Officer

MSWG AGM/EGM Weekly Watch 14 – 18 December 2020

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
14.12.20 (Mon) 9.30 am	Multi-Usage Holdings Bhd (AGM)	In FY2020, MUH's revenue decreased by 65.76% y-o-y to RM4.12 million from RM12.043 million in FY2019. This caused a higher loss before taxation of RM3.09 million vs LBT of RM0.017 million in the year before. The poor performance was mainly due to the COVID-19 pandemic as it experienced the lock down of property development, construction, manufacturing, trading activities.
15.12.20 (Tue) 02.00 pm	Latitude Tree Holdings Bhd (AGM)	Company's performance in FY2020 was marginally affected by the pandemic but the full impact would be felt in FYE 2021 as its main export markets such as North America and Europe were y severely affected by the unending pandemic. The Company's ability to contain costs and find alternative markets for its

		products would be pivotal to ensure that it registers profits in the coming financial year.
16.12.20 (Wed) 10.00 am	Berjaya Corporation Bhd (AGM)	Berjaya Corp registered RM6.99 billion revenue and profit before tax (PBT) of RM145.22 million for FY 2020 vs a revenue of RM9.79 billion and PBT of RM423.54 million for the 14-month period ended 30 June 2019. The gaming business segment and motor distribution business were the main revenue contributors to the Group. Moving forward, the low occupancy rate of its hotels and resort, as well as a lower revenue receipt from events to the hospitality business segment are expected to pose some major challenges to Berjaya Corp in the coming year.
16.12.20 (Wed) 10.00 am	Borneo Oil Bhd (AGM)	The Food & Franchise operation (FFO), which is a key revenue contributor for Borneo Oil has been badly hit by the MCO imposed to control the COVID-19 outbreak, caused the divisional revenue declined to RM40.73 million in FY2020 (FY2019: RM48.84 million). The FFO is expected to be underperformed in FY2021 due to dire economic condition and consumer sentiment.
16.12.20 (Wed) 10.00 am	Prolexus Bhd (AGM)	The Company's apparel business was severely affected by the pandemic but the Company's foray into the production of reusable face masks in FYE 2020 is expected to deliver decent returns for the coming financial year. However, its outlook remains challenging as the pandemic has caused a significant dent in the demand for its products.
17.12.20 (Thur) 10.00 am	Hiap Teck Venture Bhd (AGM)	Hiap Teck saw a 21.8% decline in revenue to RM0.93 billion in FY2020 vs RM1.19 billion in FY2019, due to lower sales volume and lower steel prices. Meanwhile, its profit from operations declined 66.9% y-o-y to RM25.79 million as compared to RM77.93 million in previous year due to lower

		margins and a sharp drop in sales volume as a result of the MCO.
17.12.20 (Thur) 10.00 am	RGT Bhd (AGM)	RGT announced plan to acquire the remaining 40% stake in Rapid Growth Technology Sdn Bhd (RGTSB) for RM124.8 million, which is RM76.8 million higher than earlier proposed acquisition price of RM48 million. Moreover, the revised purchase consideration is deemed fair at a PE multiple of 12 times, which is based on a forward-looking PE of a one-year profit guarantee, instead of basing it on past financial performance. Minority shareholders should seek further clarification from the Board to evaluate the fairness and reasonableness of the acquisition.
17.12.20 (Thur) 11.30 am	Scientex Bhd (AGM)	The FY2020 has been another fruitful year for Scientex with a 8.3% growth in revenue to RM3.5 billion, and a 16.9% increase in net profit to RM390.1 million. Scientex's acquisitions of Mega Printing & Packaging Sdn Bhd and Daibochi Berhad have reinforced its role as an integrated player in the packaging industry with presence across plain films, base films all the way through to multi-layered flexible plastic packaging solutions.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Multi-Usage Holdings Bhd (AGM)	The Group's bank and cash balances reduced from RM5.290 million in FY 2019 to RM0.783 million in FY 2020, due to lower revenue and losses incurred in FY2020. (page 10 of Annual Report). a) Will the Group's operation be affected by the low bank and cash balances moving forward? b) What are the measures taken by the Group to address the low bank and cash balances available? c) Does the Group have any banking facilities that the Group can drawdown if the Group needs cash? If yes, what is the amount available and the interest cost?

Latitude Tree Holdings Bhd (AGM)	1. Allowances for expected credit losses for trade receivables increased significantly to RM 4 million in FYE 2020 compared to RM 1.2 million in FYE 2019. (page 64 of AR 2020) a) What were the reasons for the sharp spike in the allowances? b) How much of the allowance has been collected after the financial year end.? 2. Inventories written down of the Company rose sharply fromRM411,000 in FYE 2019 to RM 2.4 million in FYE 2020? a) What was the nature of this write down? (Slow moving stock or stock obsolescence) How much of this amount had been reversed since the financial year end?
Berjaya Corporation Bhd (AGM)	The COVID-19 global pandemic has brought interruptions to the progress of work at the project sites as well as impacted the global supply chain as manufacturers and suppliers of building materials had to temporarily shut down operations and manufacturing activities. (Page 22 of AR) To what extent will the Group be affected by potential claims for late delivery? To what extent will the rising cost of materials lead to overrun in project costs?
Borneo Oil Bhd (AGM)	The revenue of Borneo Oil has been on declining trend since FY2017 from RM160.83 million to RM88.29 million in FY2020, while net profit declined from RM46.44 million in FY2017 to net loss of RM6.61 million in FY2019, then back to black to RM1.6 million in FY2020 (page 5 of Annual Report 2020). Based on the strategies and measures implemented by the Board and management, how will Borneo Oil's revenue perform in the next two to three years? Is the positive bottom-line sustainable?
Prolexus Bhd (AGM)	Inventories for finished goods increased by more than double to RM11.6 million as at 31 July 2020 (FY 2019: RM5.0 million). Meanwhile, there was also a write down of inventories valued at RM5.3 million for FY 2020 (FY 2019: RM Nil) (Page 102 of AR 2020). a) Please share the cause of increase in inventories level. b) What is the reason of the inventories write - down?
Hiap Teck Venture Bhd (AGM)	The Group expands its business into East Malaysia with the incorporation of Huatraco Scaffold (Sabah) Sdn. Bhd. and shares subscription (49% equity interest) in Jetama Alpine Pipe (Sabah) Sdn. Bhd. for the manufacturing, selling, renting scaffolding equipment and a range of steel products as well as to trade in and supply of steel pipes, hollow sections and related products (Page 137 of the Annual Report 2020) a) What is the prospect and market size for such businesses in East Malaysia?

	b) What is the Group' s current and targeted market share in East Malaysia in the next two financial years?
RGT Bhd (AGM)	On 18 September 2020, RGT announced that it planned to acquire the remaining 40% stake in Rapid Growth Technology Sdn Bhd (RGTSB) for RM124.8 million – an increase of RM76.8 million, as compared to RM48 million announced on 21 August 2019. The revision of purchase consideration was due to anticipated growth potential in RGTSB's earnings prospect which is driven by the Hygiene Care segment. a) Based on RGTSB's one-year profit guarantee of RM26 million in FYE 30 June 2021, the revised purchase consideration of RM124.8 million would have translated into a PE multiple of 12 times (based on the value accorded to the 40% equity in RGTSB). However, based on RGTSB's three-year (FYE 31 December 2017, FY19 and FY20) historical average net profit of RM9.93 million, the purchase consideration of RM124.8 million would have represented a PE multiple of 31.42 times for the 40% stake. Besides, the medical and healthcare-related businesses have achieved exceptional financial performance in 2020 mainly due to the surge in demand for their products caused by the COVID-19 pandemic. There is a risk that similar robust financial performance may not be replicated in post-Covid-19 period. Why does the Board believe that a valuation based on a forward-looking PE of a one-year profit guarantee, instead of basing it on past financial performance, is fair and is in the best interest of the Company? How does RGTSB assure RGT's shareholders that its strong financial performance (after FY21) is sustainable, thus justifying the acquisition price in the long run?
Scientex Bhd (AGM)	Scientex is the first mover in Malaysia for the successful commercial use of fully recyclable mono-material laminates in October 2019. a) How is the market reception towards the new mono-material packaging since product commercialisation? b) How different is mono-material laminates from multi-material packaging in terms of product performance, protection, cost and technology of production? c) Scientex expects to see greater commercialisation of mono-material laminate solutions in FY2021. How fast are brand owners expected to adopt the mono-material packaging? How will such transition benefit Scientex?

	d)	Major packaging companies like Amcor Plc and Berry Global Group have made commitments such as all packaging to be recyclable or reusable by 2025, and all the fast-moving consumer goods packaging to be reusable, recyclable, or compostable by the year 2025 respectively. Will Scientex make a similar commitment? Is there a plan for Scientex to intensify the sustainability effort i.e., phasing out the production of virgin plastics, non-recyclable and hard to recycle packaging products?

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DISCLOSURE OF INTERESTS

•With regard to the companies mentioned, MSWG holds a minimum number of shares in all these companies covered in this newsletter.